



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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Legislative Fiscal Analyst  
CLAYTON SCHENCK

DATE: June 2, 2006

TO: Legislative Finance Committee

FROM: Lois Steinbeck  
Marilyn Daumiller  
Kris Wilkinson

RE: Appropriation Transfer Request – Department of Public Health and Human Services

## INTRODUCTION

An update on the Department of Public Health and Human Services (DPHHS) appropriation transfer request was mailed to Legislative Finance Committee (LFC) on May 26. The update described several issues including:

- o A reduction in the amount requested from \$11.4 million general fund to \$6.1 million
- o A summary of the changes made to the request, including the plan to reduce FY 2007 general fund expenditures by \$6.1 million
- o The need for clarification as to why the budget status report dated May 15 reflected a shortfall of \$11.3 million compared to the transfer request amount
- o The staff goal, if possible, to complete an analysis of the transfer request and hold a meeting of legislators who were the members of the Public Health and Human Services Joint Appropriation Subcommittee (subcommittee) during the 2005 regular session prior to the June LFC meeting

This report provides an update to the May 26 memorandum. There have been changes to the appropriation transfer amount requested and the plan to reduce FY 2007 expenditures. On June 1, the Office of Budget and Program Planning (OBPP) forwarded revisions that:

- 1) Increase the transfer request from \$6.1 to \$9.0 million general fund due to reinstatement of a \$3 million contingency for potential changes to reimbursement for targeted case management that may occur depending on federal agency interpretation of the federal Deficit Reduction Act of 2005 (DRA); and
- 2) Raise the proposed Medicaid provider rate reduction from 1.0 to up to 15 percent across the board in order to maintain FY 2007 spending within appropriation levels.<sup>1</sup>

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<sup>1</sup> Rate reductions would vary among provider groups and among specialties within provider groups and could be greater than 15 percent for individual provider specialties.

This report summarizes areas of projected cost overruns and reversions within DPHHS and also discusses the changes in the appropriation transfer request and spending reduction plan. The report focuses on several issues and options for LFC consideration, which were shared in advance with DPHHS staff.<sup>2</sup> There are no recommendations from the subcommittee because LFD staff was unable to prepare a report for and convene a meeting of the subcommittee in the short time between the LFC meeting and receipt of the newest revisions to the appropriation transfer and spending reduction plan.

## **ISSUE SUMMARY AND LIST OF OPTIONS**

The major issues identified by LFD staff relate to the use of state special revenue. LFD staff has identified about \$3.5 million in state special revenue appropriations that can be used to offset general fund spending or that would result in greater general fund reversions over the biennium.

LFD staff requested and received a legal opinion on the use of tobacco tax state special revenue available as a result of the passage of Initiative 149 (I-149). The statutes implemented by the initiative raised tobacco tax revenue and specified how the increased funds could be expended. The legal opinion concluded that:

- o As required by statute nongeneral fund revenue must be used to offset general fund expenditures, even if the offset occurs in general fund in restricted appropriations
- o Appropriation authority can be transferred to augment restricted appropriations
- o Excess state special revenue authority can be transferred to augment tobacco tax and tobacco settlement appropriations and resulting expenditures could “drain” excess cash balances from the accounts

Options for LFC consideration include:

- 1) Prepare a letter for the Governor that:
  - a. Constitutes the LFC review of and report on the DPHHS appropriation transfer request
  - b. Includes some, all, or none of the following comments:
    - i. Request that OBPP direct DPHHS to reduce general fund spending as required by statute by using excess appropriation authority in tobacco tax and tobacco settlement state special revenue appropriations
    - ii. Request that DPHHS inform the LFC by July 15 of the final appropriation transfer amount and the cost elements of the total amount
    - iii. Request that DPHHS inform the LFC of what actions it will take regarding some of the tobacco tax state special revenue appropriations in FY 2007 as to whether it will use the appropriations to:
      1. Reduce general fund expenditures; or
      2. Fund services that might help alleviate general fund cost overruns
- 2) Take no action on the appropriation transfer request

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<sup>2</sup> LFD staff including Clayton Schenck, Legislative Fiscal Analyst, Taryn Purdy, Principal Analyst, Marilyn Daumiller, Fiscal Analyst I, and Lois Steinbeck, Senior Fiscal Analyst met with John Chappuis, Deputy Director of DPHHS June 6, 2006. In addition, LFD analyst staff has communicated with several DPHHS division administrators, division fiscal staff, and Scott Sim, Chief of the Budget and Program Analysis Bureau of the Director’s Office of DPHHS via telephone and e-mail as issues were identified.

- 3) Direct LFD staff to convene a meeting of the subcommittee for further review of the appropriation transfer request and ongoing shortfall in FY 2007 and provide comment to the LFC
- 4) Direct LFD staff to continue to evaluate policy options that are identified, but not elaborated on, in this report, including issues arising from the legislative staff legal opinion on expenditure of tobacco tax and tobacco settlement revenue

## **AREAS OF SHORTFALL AND OFFSETS**

There are various shortfalls and some offsetting unexpended general fund appropriations throughout DPHHS. Shortfalls totaling over \$0.5 million of the projected cost overrun are:

- 1) Potential Medicaid targeted case management reimbursement change - \$3.0 million;
- 2) Medicaid physician services - \$2.9 million;
- 3) Montana State Hospital - \$2.7 million;
- 4) Children's Medicaid funded mental health services - \$1.5 million;
- 5) Medicaid hospital and hospital clinic services - \$1.1 million;
- 6) Montana Developmental Center - \$0.7 million; and
- 7) Adult Medicaid and Mental Health Services Plan (MHSP) - \$0.6 million.

The most significant reversions anticipated from general fund appropriations that partially offset the total cost overrun are:

- 1) Medicaid pharmacy, acute services and dental services - \$1.1 million;
- 2) Montana Mental Health Nursing Care Center, chemical dependency Medicaid services, and mental health central administration - \$0.4 million;
- 3) Medicaid nursing home services and nurse aide registry - \$0.4 million; and
- 4) Medicaid funded home and community based services for physically disabled and elderly persons - \$0.2 million.

Appendix 1 lists the projected general fund overage or balance for each division budget and major program within the divisions according to the budget status report received May 15, 2006.

## **AMENDED REQUEST**

The original appropriation transfer request submitted by OBPP totaled \$11.4 million general fund. As more expenditure data became available and as DPHHS compiled answers to LFD staff information requests, the amount was reduced to \$9.0 million and the statutorily required plan to reduce expenditures in the second year of the biennium was amended.

The update on the status of the DPHHS appropriation transfer mailed to the LFC in advance of its June meeting indicated that the transfer amount was \$6.1 million as reflected in the total included in the plan to reduce expenditures. However, in a meeting with DPHHS staff<sup>3</sup> it was

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<sup>3</sup> Deputy Director John Chappuis and Scott Sim, Chief of the Budget and Program Analysis Bureau of the Director's Office met with Lois Steinbeck, Marilyn Daumiller, and Kris Wilkinson on May 30, 2006. During that meeting, it became clear that the appropriation transfer amount requested was \$9.0 million and that the plan to reduce expenditures would be amended to reflect that total. OBPP submitted the official request to change the DPHHS appropriation transfer plan to the LFD on June 1, 2006. DPHHS also provided on May 31 the final documentation to requests for information made by the LFD on May 15.

determined that the appropriation transfer request should be \$9.0 million. LFD staff noted that the plan did not cover the requested amount and the plan was subsequently amended.

Figure 1 shows the original request for \$11.4 million, each reduction to the original request, and the amended plan to lower costs by \$9.0 million in FY 2007. Issues related to each item as well as LFD staff options that can be considered in addition to the DPHHS plan will be discussed following the initial summary of amendments to the appropriation transfer request.

| Figure 1<br>Original Compared to Amended General Fund<br>Appropriation Transfer Request DPHHS - FY 2006 |                   |                  |
|---|-------------------|------------------|
| Amendments to Original Appropriation Transfer Request and Plan to Reduce FY 2007 Costs                  | Amount (Millions) | Percent of Total |
| <u>Original Request Transfer Request</u>  | \$11.4            |                  |
| Less  |                   |                  |
| Shift General Fund Costs to Tobacco Tax (I-149)   | (\$1.5)           | 66%              |
| Savings due to Revision of Clawback - Part D - FY 2006  | (0.6)             | 24%              |
| Mental Health Services Plan Savings - Part D - FY 2006  | <u>(0.2)</u>      | <u>10%</u>       |
| Subtotal Reductions   | <u>(\$2.3)</u>    | 100%             |
| <b>Total Amended Transfer Request</b>   | <b>\$9.0</b>      |                  |
| <u>Cost Mitigation Steps in FY 2007</u>   |                   |                  |
| Medicaid Provider Rate Reduction  | \$4.5             | 50%              |
| Savings due to Revision of Clawback - Part D  | 2.8               | 31%              |
| Administrative Cost Savings   | 1.0               | 11%              |
| Mental Health Services Savings - Part D - FY 2007   | 0.4               | 4%               |
| Medicaid Prescription Reimbursement Change - DRA  | <u>0.3</u>        | <u>3%</u>        |
| <b>Total Mitigation</b>   | <b>\$9.0</b>      | 100%             |

## SHIFTING GENERAL FUND COSTS TO TOBACCO REVENUE

DPHHS identified \$1.5 million of general fund costs that can be shifted to tobacco tax state special revenue in FY 2006 in keeping with statutory requirements that nongeneral fund be expended prior to general fund when permitted.<sup>4</sup> This change accounts for 28 percent of the total change from the original to the amended request.

## MEDICARE PART D

DPHHS lowered its appropriation transfer request by \$0.8 million due to savings from the new Medicare drug benefit (Part D) implemented January 1. The largest share - \$0.6 – is due to a recalculation of the base per person cost that all states must pay to the federal government for persons eligible for both Medicare and Medicaid.

DPHHS lists a smaller reduction due to savings from Part D coverage of prescription costs for some people eligible for the state funded Mental Health Services Plan (MHSP). However, the reduction to MHSP is not a reduction in general fund, but a reduction in tobacco tax revenue that will be freed up and used in other statutorily allowable uses to offset general fund.

<sup>4</sup> 17-2-108(1), MCA.

## **ORIGINAL OPTIONS TO REDUCE FY 2007 EXPENDITURES**

The original appropriation transfer request included a list of spending reductions that focused on service and eligibility cuts to offset both FY 2006 and FY 2007 shortfalls based on the worst case scenario, including reductions proposed in President Bush's federal 2007 budget. The list of optional spending cuts of over \$73 million general fund.

The amended plan consists of other saving measures that do not reduce eligibility or services. However, access to services could be limited if some providers do not continue to participate in the Medicaid program because of proposed provider rate reductions beginning April 1, 2007.

### **LFD Staff Analysis of Initial and Amended Proposal**

LFD staff in its overview of the DPHHS appropriation transfer request at the March LFC meeting noted several issues related to the original proposal, including the options to reduce FY 2007 expenditures. LFD staff noted that:

- o The list of options to reduce costs did not qualify as a plan in order to fulfill statutory requirements
- o There were other options to reduce general fund expenditures that could be considered, although none of those options would offset cost overruns entirely without additional reductions including:
  - o Use of tobacco tax and tobacco settlement state special revenue to offset general fund
  - o Consideration of cost saving measures included in and allowed by the Deficit Reduction Act of 2005 (DRA)<sup>5</sup> such as:
    - o Changes in Medicaid drug reimbursement
    - o Ability to institute co-payments and premiums for persons with incomes above the regular Montana Medicaid eligibility standards

As part of its analysis of the original appropriation request, LFD staff asked<sup>6</sup> that DPHHS provide:

- 1) Its estimates of the amount that Montana is required to pay to the federal government to offset prescription drug costs assumed by Medicare that were previously paid by Medicaid (called the clawback);
- 2) The documentation of its estimate of savings to MHSP due to Medicare Part D; and
- 3) Estimates of savings due to the DRA changes in Medicaid drug reimbursement and co-payments for families with incomes above 200 percent of the federal poverty level whose children are eligible for regular and specialized Medicaid funded services if family income and resources are disregarded in eligibility determination.

The Legislative Fiscal Analyst (LFA) also requested a legal opinion as to whether the plans to reduce expenditures for the three appropriation transfer requests that the LFC would consider at its June meeting met statutory criteria. The legal opinion concluded that the list of options

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<sup>5</sup> The LFD staff analysis was based on the premise that DPHHS should consider the cost saving measures allowed by changes in the DRA since it included the worst case scenario related to potential expenditure increases due to the act in the appropriation transfer request.

<sup>6</sup> The LFD made its requests March 17, 2006.

submitted by DPHHS did not meet statutory criteria for a plan since the LFA would be unable to determine whether expenditures would be offset as required by statute.<sup>7</sup>

## **AMENDED PLAN**

The amended plan submitted by DPHHS identifies specific measures that the agency will take to reduce general fund expenditures and resulting cost savings. The amended plan appears to meet statutory requirements.

## **PROVIDER RATE REDUCTIONS**

The most significant component of the cost saving plan is a proposed Medicaid provider rate reduction that comprises half of the total. DPHHS will reduce Medicaid provider rates across the board potentially up to 15 percent effective April 1, 2007 (the last quarter of FY 2007). If federal changes to targeted case management cost Montana less than \$3 million, DPHHS will not reduce provider rates by as much. Provider rate reductions are scheduled to take place during the legislative session, giving the legislature time to consider whether or not to allow the rate reduction to go forward.

The provider rate reduction is referred to as an “across the board” reduction, but actual rate reductions would vary among provider groups and among specialties within provider groups. The variance would occur because DPHHS would need to first calculate the amount of the FY 2007 Medicaid provider rate that is supported by tobacco tax state special revenue, reduce the rate by that amount, and then reduce the rate sufficiently to produce \$4.4 million in general fund savings. Tobacco tax revenue may be used to fund new services or pay more for existing services, but it may not be used for caseload and service utilization increases.<sup>8</sup> Therefore, DPHHS cannot choose to reduce Medicaid rates by a lesser amount, reduce general fund, and use tobacco tax state special revenue to fund caseload and service utilization cost increases.

## **MEDICARE PART D CLAWBACK**

DPHHS identified savings due changes in the Medicare Part D clawback payments in FY 2007, comprising nearly \$3 million or about one-third of the reduction plan. DPHHS anticipates savings because there are fewer persons eligible for both Medicaid and Medicare than projected and because the base year cost was recalculated and reduced by CMS.<sup>9</sup>

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<sup>7</sup> Greg Petesch, Code Commissioner and Director of the Legal Services Bureau, Legislative Services Division published the opinion on April 4, 2006. A copy of the opinion was forwarded to DPHHS and is on file in the LFD. 17-7 301(1), MCA requires all agencies that request an appropriation transfer to submit a plan to reduce costs in the second year of the biennium except the Superintendent of Public Instruction and the Attorney General for certain costs and for fire suppression costs.

<sup>8</sup> Greg Petesch, Code Commissioner and Director of Legal Services, Legislative Services Division, letter to Lois Steinbeck, Senior Fiscal Analyst, Legislative Fiscal Division, June 7, 2006, p. 5.

<sup>9</sup> There are fewer persons eligible for both Medicaid and Medicare in the medically needy optional eligibility group. Persons who are eligible for Medicaid meet the resources, age, and disability eligibility criteria except they have income in excess of financial criteria. Persons who incur medical bills in an amount to “spend down” their income to the Medicaid income criteria are then eligible for Medicaid. Since some persons were eligible due to their drug expenditures and those costs are now born by Medicare, they no longer spend down their income to be eligible for Medicaid. Therefore there are fewer persons eligible for both programs and the clawback amount is lower than anticipated.

## **ADMINISTRATIVE COST SAVINGS**

DPHHS will continue to hold nonessential positions open longer, reduce travel costs, and constrain other administrative costs in an effort to reduce general fund by about \$1 million in FY 2007.<sup>10</sup> Administrative cost savings are anticipated to comprise about 16 percent of the \$6.1 million spending reduction in FY 2007.

## **MEDICARE PART D SAVINGS IN MHSP**

DPHHS estimated that Part D will reduce general fund costs for prescription drugs costs in MHSP by about \$0.4 million in FY 2007. The reduction is expected to occur because some persons eligible for MSHP are receiving drug coverage for most of their mental health prescriptions through Part D.

## **CHANGE IN MEDICAID DRUG COSTS**

DPHHS estimated that it would save about \$0.3 million for drug costs in FY 2007 due to changes included in the DRA. Effective January 1, 2007, reimbursement for Medicaid drug costs will be based on the average manufacturer's price instead of the average wholesale price.

## **ISSUES**

LFD staff reviewed the appropriation transfer request, the cost saving plan, and the supporting documentation for both. The LFD has identified several issues for LFC comment and consideration. Some issues result in additional general fund savings in both FY 2006 and FY 2007. On the other hand, some issues have the opposite effect and increase general fund costs or identify elements of the cost saving plan that do not reduce general fund costs. In addition, the LFD has requested a legal opinion that may result in policy issues that the LFC would like to take under consideration at a future meeting.

## **USE OF STATE SPECIAL REVENUE TO OFFSET GENERAL FUND COSTS**

Except for limited exceptions, statute requires an agency to use nongeneral fund prior to expending general fund when possible.<sup>11</sup> There are two specific sources of state special revenue that DPHHS can use to offset some of the anticipated general fund shortfall or to replace general fund in restricted appropriations and increase general fund reversions. Both sources must be used for certain statutorily specified uses. The two sources are:

- 1) Tobacco tax revenue appropriated from the health and Medicaid initiatives account; and
- 2) Tobacco settlement revenue and trust income interest earnings.

LFD staff has identified \$3.5 million of potential excess tobacco related state special revenue appropriation authority that might be available to offset general fund spending. LFD staff has also identified related general fund appropriations that appear to meet the statutory criteria that govern the use of the state special revenue funds. The biennial general fund reduction could be greater than \$3.5 million since the LFD made no projections of potential excess tobacco settlement revenues in FY 2007.

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<sup>10</sup> DPHHS estimates that general fund spending was reduced by about \$970,000 due to such actions in FY 2006.

<sup>11</sup> 17-2-108,MCA.

LFD staff presented to DPHHS an initial analysis of excess tobacco related state special revenue appropriations that could be used in place of general fund, based on the most recent budget status report. At this point, there also appears to be sufficient cash in the tobacco settlement and tobacco tax in the health and Medicaid initiatives account to support most if not all of the state special revenue appropriation authority that is projected to revert. The department is reviewing the LFD list.

In some instances, the general fund that can be offset by tobacco related state special revenue is in a restricted appropriation and would result in higher general fund reversions and not lower the appropriation transfer request amount. There is to be no statutory prohibition to use state special revenue in place of general fund in a restricted appropriation.<sup>12</sup>

## **OTHER ISSUES FOR LFC CONSIDERATION**

There are other issues that the LFC may wish to consider. First, DPHHS could choose to use some of the excess tobacco tax appropriation authority in FY 2007 to augment or develop services that could potentially offset some of Montana State Hospital (MSH) cost overruns that are expected to continue in FY 2007. For instance, DPHHS could use funds to develop additional community crisis services or support and recovery services. DPHHS testified before the 2005 subcommittee that these types of services were needed to help adults with a serious and disabling mental illness remain in the community and avoid hospitalization and requested appropriations to develop such services.

Second, the plan to reduce FY 2007 expenditures addresses the anticipated shortfall due to the appropriation transfer. However, the legislature may still receive a supplemental request for costs in FY 2007 even if the plan successfully offsets the appropriation transfer amount. FY 2007 costs are likely to exceed the general fund appropriation by at least \$11 million. Projected general fund cost overruns are due to:

- o A change in the federal Medicaid match rate - \$7.0 million
- o Ongoing population trends at MSH - \$3.0 million
- o Ongoing shortfalls at the Montana Developmental Center - \$0.7

Third, the legislative staff legal opinion<sup>13</sup> noted that it would be allowable for the executive to transfer excess state special revenue authority to augment tobacco tax and tobacco settlement state special revenue appropriations. This type of transfer would allow agencies to spend tobacco related revenues above the level appropriated by the legislature and could potentially drain cash balances that the legislature had intended to support the operation of some state programs in the future.

## **Medicaid Caseload Estimates**

Another challenge facing executive and legislative staffs is estimating Medicaid caseload and service utilization costs not only in FY 2006, but for development of the FY 2009 biennium as well. In late 2005, DPHHS authorized its Medicaid claims payment agent to purchase an optical scanner to eliminate a backlog of unpaid claims, which ranged from 20,000 to 50,000 claims on

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<sup>12</sup> Greg Petesch, June 7, 2006, p. 6.

<sup>13</sup> Ibid, pp. 7 and 8.



any given day. Over the course of several months the claims backlog was eliminated. Payment trends used to make spending forecasts rose upward. Since the types and amounts of the claims in the backlog were not tracked, it is difficult to separate out the impact due to speed up of payment from potential underlying service utilization trends. As a result, DPHHS has included a “cushion” of \$1.8 million general fund in its appropriation transfer request because it cannot tell whether costs will continue to grow at a rate that appears too high to some DPHHS staff who have projected and tracked Medicaid costs for over a decade.

The data anomaly from speeding up claims payment is also impacting FY 2007 and the 2009 biennium Medicaid forecasts. LFD staff will continue to monitor and update the LFC on this issue.

## **WHAT HAPPENS IF....**

LFD and DPHHS staffs have discussed what happens if FY 2006 cost overrun exceeds the general fund appropriation transfer request currently before the LFC or if the elements of the plan to reduce FY 2007 materially change. Costs could change due to Medicaid caseload estimate anomalies described above and the plan to reduce expenditures could change if provider rate reductions become so great that the option would have more deleterious affects than desirable.

LFD staff informed DPHHS that it would need to submit a new appropriation transfer request and a plan to reduce expenditures. LFD staff would consult the LFC on whether it would convene a meeting prior to fiscal year end closeout to review and potentially report on the new request and plan.

DPHHS staff would like the LFC to consider an official statement or consensus acknowledgement in the June meeting minutes that it would be willing to consider convening a special meeting in July to accommodate a review of another appropriation transfer request if it became necessary to transfer amounts above \$9.0 million.

## **OPTIONS FOR LFC CONSIDERATION**

There are four options listed for LFC consideration. While options 1 and 2 are mutually exclusive, the others are not.

Option 1. The LFC may choose to report on the DPHHS appropriation transfer. If it does it could:

- a) Prepare a letter for the Governor that:
  - a. Constitutes the LFC review of and report on the DPHHS appropriation transfer request
  - b. Includes some, all, or none of the following comments:
- b) Request that OBPP direct DPHHS to reduce general fund spending as required by statute by using excess appropriation authority in tobacco tax and tobacco settlement state special revenue appropriations
- c) Request that DPHHS inform the LFC by July 15 of the final appropriation transfer amount and the cost elements of the total amount

- d) Request that DPHHS inform the LFC of what actions it will take regarding some of the tobacco tax state special revenue appropriations in FY 2007 as to whether it will use the appropriations to:
  - a. Reduce general fund expenditures or
  - b. Fund services that might help alleviate general fund cost overruns

Option 2. The LFC may choose to take no action on the appropriation transfer request

Option 3. The LFC may choose to direct LFD staff to convene a meeting of the subcommittee for further review of the appropriation transfer request and ongoing shortfall in FY 2007 and provide comment to the LFC.

Option 4. The LFC may choose to direct LFD staff to continue to evaluate policy options that are identified, but not elaborated on, in this report, including potential issues arising from the legislative staff legal opinion on expenditure of tobacco tax and tobacco settlement revenue and report on those issues at the next LFC meeting.

# APPENDIX 1

## FY 2006 GENERAL SHORTFALLS AND SURPLUSES

### DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES

Figure 2 shows the projected FY 2006 general fund shortfall or surplus by division and by major programmatic function within each division of DPHHS. The amounts in Figure 2 are taken from the DPHHS budget status report received on May 15, 2006 – six weeks prior to fiscal year end.

| Figure 2  |                |                |                  |
|---|----------------|----------------|------------------|
| General Fund Shortfall/Surplus by Division and Major Program Area |                |                |                  |
| April 2006 DPHHS Budget Status Report                             |                |                |                  |
| Division/Programmatic Area  | Amount         |                | Percent of Total |
|   | Division Total | Program Area   |                  |
| Human and Community Services                                      | (\$160,270)    |                |                  |
| County Administration   |                | (\$140,391)    | 1%               |
| State Office Administration                                       |                | (19,879)       | 0%               |
| Child and Family Services   | 91,407         |                |                  |
| Regional Administration   |                | (147,946)      | 1%               |
| Foster Care/Subsidized Adoption/Domestic Violence                 |                | 168,751        | -1%              |
| Other Administration  |                | 70,602         | -1%              |
| Director's Office   | (3,236,392)    |                |                  |
| Targeted Casemanagment Costs - DRA                                |                | (3,000,000)    | 26%              |
| Termination Payouts - to be Distributed to Other Divisions        |                | (356,871)      | 3%               |
| Other Administration  |                | 120,479        | -1%              |
| Child Support Enforcement   | 0              |                | 0%               |
| Fiscal Division   | (225,199)      |                | 2%               |
| Public Health and Safety Division                                 | 12,720         |                | 0%               |
| Quality Assurance Division  | 58,624         |                | -1%              |
| Operations and Technology Division                                | (193,336)      |                | 2%               |
| Disability Services   | (837,019)      |                |                  |
| Montana Developmental Center                                      |                | (750,289)      | 7%               |
| DD Program/Waiver Services/Targeted Case Management               |                | (83,026)       | 1%               |
| Vocational Rehabilitation Program                                 |                | (3,704)        | 0%               |
| Health Resources  | (4,096,798)    |                |                  |
| Medicaid Managed Care Services                                    |                | (3,198,122)    | 28%              |
| Children's Mental Health Services                                 |                | (1,011,890)    | 9%               |
| Medicare Buy-In   |                | (975,058)      | 9%               |
| Medicaid Hospital and Hospital Clinic Services                    |                | (746,656)      | 7%               |
| Children's Mental Health Administration                           |                | (185,698)      | 2%               |
| Medicaid Pharmacy, Dental and Acute Services                      |                | 1,965,592      | -17%             |
| Medicaid Administrative Costs                                     |                | 55,034         | 0%               |
| Senior and Long Term Care   | 663,936        |                |                  |
| SSI State Supplement  |                | (76,017)       | 1%               |
| Administrative Costs  |                | (19,206)       | 0%               |
| Medicaid Nursing Home Services and Nurse Aide Registry            |                | 538,426        | -5%              |
| Medicaid Waiver and Community Services                            |                | 181,072        | -2%              |
| Adult Protective Services Grants                                  |                | 39,661         | 0%               |
| Addictive and Mental Disorders                                    | (3,442,298)    |                |                  |
| Montana State Hospital  |                | (3,181,927)    | 28%              |
| Adult Mental Health Medicaid Services                             |                | (360,085)      | 3%               |
| Mental Health Services Plan                                       |                | (276,115)      | 2%               |
| Mental Health Administration/PATH Grant/Nursing Care              |                | <u>375,829</u> | <u>-3%</u>       |
| Center/Chemical Dependency Medicaid Match                         |                |                |                  |
| Total   | (\$11,364,625) | (\$11,364,625) | 100%             |

The net combined shortfall of \$200,000 in the Human and Community Services and Child and Family Services Divisions primarily relates to increased rent and utility costs in public assistance operations at the county and state level and increased rent, transportation and overtime costs in support of social workers at the regional level.

The Business and Financial Services Division and the Technology Division show a combined shortfall of \$0.4 million that is primarily due to cost allocation change for SABHRS and the CAPS computer system in addition to a large, unfunded retirement payout.

The Disabilities Services Division predicts a shortfall of nearly \$700,000 at the Montana Developmental Center (MDC) due to overtime expenditures. However, staff members continue to address the overtime issue, and the May budget shortfall of \$698,204 is over \$60,000 less than the April budget shortfall.

The Health Resources Division (HRD) has the largest shortfall at \$4.2 million followed by the Addictive and Mental Disorders Division (AMDD) with \$2.8 million. The Director's Office shows a \$3.2 million deficit that which could be lowered to under \$0.5 million in the May budget status report depending on how federal regulations implement changes to targeted case management costs in the Deficit Reduction Act of 2005 (DRA). The shortfall in termination costs will be distributed to other divisions.

The HRD deficit is driven by cost overruns in several Medicaid services – physician and managed care services, children's mental health and hospital services. The shortfall is partially offset by a \$1.1 million saving in drug, dental and acute services costs. The pharmacy savings is due in part to implementation of Medicare Part D, which now covers the cost of drugs for Medicaid eligible persons who are also eligible for Medicare (dual eligibles).

Medicaid costs, including those for adult mental health, inpatient hospital, and Medicare buy in, are also exceeding the budgeted authority.<sup>14</sup> Inpatient hospital costs are higher than expected for a variety of reasons, but are partially up due to several high cost neonatal cases.

The AMDD cost over run is due to shortfalls in most adult mental health services. The single largest component is for Montana State Hospital (MSH) operations. The state hospital appropriation was based on an average daily population of about 169 (after vacancy savings is applied to the appropriation) compared to an actual year to date population of 197, with the month of April averaging 209.<sup>15</sup> The most significant component of the MSH operating shortfall is in personal services due to overtime costs and the addition of 36.60 modified FTE approved by OBPP.

The Senior and Long-Term Care Division (SLTC) projects a \$0.7 million general fund surplus. The majority of the surplus is in nursing home services due to slightly lower nursing home populations, with reversions in community services as well.

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<sup>14</sup> A state has the option to pay Medicare Part A and Part B premiums for persons who are eligible for both Medicare and Medicaid. Medicare would be the first payer for services covered by Part A and Part B, potentially more than offsetting the cost of the premium payments.

<sup>15</sup> Ed Amberg, Director, Montana State Hospital, e-mail communication, May 12, 2006.